



# ARIZONA STATE RETIREMENT SYSTEM

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*Paul Matson*  
Director

## SUMMARY OF THE PUBLIC MEETING OF THE ARIZONA STATE RETIREMENT SYSTEM INVESTMENT COMMITTEE

HELD ON  
Tuesday, November 13, 2012  
2:30 p.m.

The Arizona State Retirement System (ASRS) Investment Committee (IC) met at 3300 N. Central Avenue, 14<sup>th</sup> Floor, Phoenix, AZ 85012. Mr. Tom Connelly, Chair of the IC, called the meeting to order at 2:30 p.m.

### 1. Call to Order; Roll Call; Opening Remarks

Present: Mr. Tom Connelly, Chair  
Prof. Dennis Hoffman, Vice-Chair  
Mr. Mike Smarik

Absent: None.

A quorum was present for the purpose of conducting business.

### 2. Approval of Minutes of the August 27, 2012 and September 10, 2012 Investment Committee Meetings

**Motion:** Mr. Mike Smarik moved the minutes of the August 27, 2012 and September 10, 2012 Investment Committee meetings be adopted. Prof. Hoffman seconded the motion.

By a vote of 3 in favor, 0 opposed, 0 abstentions, 0 excused, the motion was approved.

### 3. Presentation, Discussion, and Appropriate Action Regarding Investment Program Reporting

Mr. Paul Matson, Director, asked Mr. Gary Dokes, CIO, to connect agenda items 3, 4, and 5 to provide a sense of continuity between these items and requested the IC provide their thoughts of what information they find to be important and helpful. Mr. Dokes provided this continuity by framing the discussion and linking these three agenda items.

Mr. Dokes provided a detailed explanation of the elements listed in the IC and Board reporting exhibits; discussing the various parties involved in the reporting (IC, Board, EC Chair) as well as the periodicity of the reporting.

Mr. Connelly requested an additional column or asterisk be added to include the Investment Committee Chair in the communication scheme and that the ASRS Board Chair also be invited to the call or meeting. Mr. Dokes and Mr. Matson agreed the addition would serve as a means of formalizing the current informal means of communication between the parties.

Mr. Connelly requested that to provide a formal and direct relationship, periodic debriefing conference calls take place between the IC Chair and the General Consultant (NEPC). Mr. Matson supported the idea.

Mr. Connelly asked that the Investment Management Division (IMD) consider structuring an outsourcing program for some projects rather than over extending staff. Mr. Dokes explained the role of the Staff-extension Consultants as it relates to their assistance with various projects and research initiatives, and that outsource of due diligence activities currently takes place with the IMD taking the primary role as project managers.

Per input and consensus of the IC, the Investment Program Reporting schematic will be amended to include the following:

- 1) Bi-monthly debriefings/updates between the IC Chair and General Consultant.
- 2) Monthly conference call updates between the IC Chair and CIO with an option for the Board Chair and Director to participate.
- 3) Investment Goals & Objectives Review segment will be presented to the Board annually.

Mr. Connelly stated he was supportive of the Program Reporting Schematic and believes it to be cohesive with the Investment Beliefs and policies and is highly coordinated with the (ASRS) governance documents.

#### **4. Presentation, Discussion, and Appropriate Action Regarding ASRS Investment Risk Reports**

Mr. Matson, provided background information as it related to the ASRS Investment Risk Reports. He delineated the sources of the reports, noting that State Street (ASRS Custodian Bank) produces the (truView) Risk Report, while the Securities Lending Risk Metrics is produced in-house by IMD staff. Mr. Matson discussed the logic of the risk metrics platform outsourcing to State Street as well as provided detailed overviews and suggestions to the reports. Suggestions and comments for the risk reports from IC members and Director Matson include the following:

- 1) Rename the "Monthly Allocation Summary" slide to: "Monthly Re-allocation Summary" to ensure clarity that this is a transaction page.
- 2) Include all internal and external portfolios.
- 3) Clarify the date of the materials to include: "for the month of..." or "for the quarter of..."
- 4) Regarding the Monthly Re-allocation Summary slide: Include net cash outflow amount.
- 5) Clarify the intent of the Monthly Risk Summary to denote the change in the relative relationship between the ASRS fund risk and the fund benchmark while also considering absolute risk.
- 6) Plot the absolute risk over time on the Monthly Risk Summary to provide more value and clarity.
- 7) Include Non-U.S. Equities on the Total Plan Exposure Overview slide.
- 8) Consider a "Proxy Allocation" to determine the international or emerging market revenue allocation of U.S. and European companies, to provide a better equity geographic allocation than simply allocating 100% of the corporate exposure to the country of domicile.
- 9) Under the Top 20 Issuer segment, revise the cash category into two components: Cash-Real and Cash-Equitization Collateral.
- 10) Provide a division between developed and non-developed markets.
- 11) Include Fixed Income risk factors such as credit ratings, geographic allocations, currency denominations and possibly duration and similar statistics.

- 12) It was suggested that the Total Plan Stress Test slide also include positive scenarios and provide uniform time frames/periods.
- 13) Clarification and correction with regard to the Glossary of Terms slide.

The IC requested that the State Street Risk Reports be included in the Director's report on a quarterly basis. This report will contain elements such as a Monthly Re-Allocation Summary, a Monthly Risk Summary, a Total Plan Exposure Report(s), a Total Plan Stress Tests and a Glossary of Terms.

Mr. Dokes provided an overview and origin of the Securities Lending Risks Metrics, and explained how the metrics tie into the IMD House Views. The metrics take into account the levels of volatility in the market, volatility or stress that could happen within the banking sector and includes the Windham metrics as variables. Mr. Dokes also explained the extraction from securities lending in the co-mingled fund with State Street upon seeing stresses in the 4<sup>th</sup> quarter of 2011.

## **5. Presentation, Discussion, and Appropriate Action Regarding Independent Reporting, Monitoring and Oversight of the ASRS Investment Program**

Mr. Allan Martin, Partner, NEPC provided an overview and highlighted the discussion segment of the memo, which outlined the newly bifurcated reporting roles in which the Independent/General Consultant, rather than staff will now report on the achievement of Investment goals, as per the new governance structure.

Mr. Martin requested that Mr. Dan LeBeau, Consultant, NEPC, detail the Asset Class Positioning and Performance, the monitor selection process, and list of available risk metrics to promote dialogue and discussion in efforts to refine those areas. Mr. Connelly requested that the IC know the current state-of-the-art metrics so as to have meaning and importance with respect to metrics we would use for decision making.

With regard to the Asset Class Positioning slide, Mr. Dokes would like to ensure the Asset Class Positioning method used by NEPC is consistent with and similar to the methodology contained in the ASRS Daily Market Value Report. Mr. Martin confirmed the reporting will be consistent with regard to the logical aspects of the report. Mr. LeBeau pointed out that the only discrepancy may be the timing of the reports. NEPC may use quarterly reporting numbers, to where the ASRS may generally have more updated reporting numbers.

Mr. Connelly posed a question relating to ASRS compliance to policy targets and the consultant's role in the process. According to governance procedures, NEPC's role would be to notify the Committee and take appropriate action to bring the ASRS back into compliance.

With regard to the Asset Class Performance detail, Mr. Connelly requested a memo be prepared discussing the statistics summary of the asset classes. Mr. Connelly requested that the statistics contain a more relevant time period- longer than 3 years. Mr. Dokes agreed that he would work with NEPC to provide this information as part of their reporting and oversight function.

Mr. Martin suggested that the asset class performance detail also contain (within each asset class) a correlation analysis between the managers. Mr. Martin would like reporting on each asset class e.g., how it's performing against the benchmark and the contribution from each manager and the risk and return to the portfolio to the extent of the logic of how the portfolio was constructed.

Mr. Dokes provided his guidance on the reporting of NEPC stating the Board-level reports would generally include investment performance from an asset class perspective while detail manager level performance and discussion of fees would occur at the IC level.

With regard to the Investment report in the Board Director's Report, Mr. Connelly had concerns about duplicative information that would already be presented to the IC. Mr. Dokes and Mr. Matson will review and make appropriate changes.

Mr. Connelly also requested NEPC report to the Board any exceptional items regarding investment managers.

Discussion ensued regarding the granularity of investment manager information to report to the Board. Mr. Dokes reiterated his perspective to discuss asset class performance and attribute information with the full Board rather than them focusing on detailed manager-level information. Mr. Connelly agreed that would be adequate, however, wanted to ensure the Board was aware of manager performance. Mr. Matson suggested the State Street performance information from the ASRS Quarterly Investment Performance Report be replicated appropriately in NEPC reporting and oversight material to the Board and IC. As a result, Mr. Connelly suggested a summary of the report be made, however, chose to table additional discussion of this matter until a future meeting.

Mr. Dokes said he would work with Mr. Martin to create distinct reporting, monitoring and oversight material for both the Board and IC.

## **6. Presentation, Discussion, and Appropriate Action Regarding ASRS Inflation-linked Asset Class Presentation**

***(This agenda item was covered after agenda item #7)***

Mr. Dokes provided an overview of the inflation-linked asset class categories as they relate to the Commodities, Real Estate, Farmland & Timber, and Infrastructure and Opportunities/ initiatives within the program.

Mr. Sean Ruhmann, Senior Consultant, NEPC discussed the portfolio, providing comments about the Real Estate Program.

Mr. Eric Glass, Portfolio Manager, provided a comprehensive presentation of ASRS' Commodities Program and provided staff's perspectives regarding its two existing commodity managers.

## **7. Presentation, Discussion, and Appropriate Action Regarding ASRS Investment Program Updates**

***(This agenda item was covered after agenda item #8)***

Mr. Dokes provided an overview of IMD's new reporting structure to include the following:

- 1) ASRS Fund Positioning
- 2) IMD Investment House Views
- 3) Asset Class Committee Activities
- 4) Tactical Portfolio Positioning
- 5) Strategic Asset Allocation Policy (SAAP) Implementation

6) IMD Projects, Research and Initiatives

Mr. Dokes requested the Portfolio Managers briefly present and facilitate discussion of their dedicated House Views segment. Mr. Keith Guido, Assistant Portfolio Manager, provided the IMD views of U.S. and Non-U.S. Equities. Mr. Al Alaimo, Portfolio Manager of Fixed Income, provided insight into Fixed Income House Views. Mr. Karl Polen, Portfolio Manager of Real Estate, spoke about the IMD House Views as they related to Real Estate, Private Equity and Opportunistic Investments. Mr. Eric Glass, Portfolio Manager of Commodities provided House Views relating to Commodities.

Mr. Matson provided comments on the Securities Lending Update/Strategy segment of the agenda item to bring the Trustees up-to-date on an investment strategy IMD is contemplating proceeding with over the next month. Mr. Matson provided background on the extraction from securities lending in September of 2011. He stated we are comfortable with not proceeding back with a full reallocation to a securities lending market at this point although at some point in the future, we probably will look at the securities risk profile presented earlier which reflects the risk factors at a significant reduction from when we had concerns. We are likely going to enter negotiations to reengage into securities lending over the next several weeks after: 1). Engaging a third party attorney to ensure that contractually, our rights are indeed what we think they are, and 2). Find out if their street insights are any different than ours. Mr. Matson expressed reasonable confidence with moving ahead with this strategy and an option to exit the strategy between 90 to 100 days and at that point consider reinstituting a platform-wide Securities Lending Program.

*Mr. Mike Smarik departed the IC meeting at 5:00 p.m.*

**8. Presentation, Discussion, and Appropriate Action Regarding the Investment Committee Meeting Schedule for the Calendar Year 2013 Proposal**

***(This agenda item was covered after agenda item #5)***

**Motion:** Mr. Mike Smarik moved that the IC accept the proposed IC meeting schedule for the calendar year 2013 to occur in the week of the 2013 Board meeting schedule for the calendar year 2013 to be approved by the ASRS Board during the November 16, 2012 meeting. Prof. Hoffman seconded the motion.

By a vote of 3 in favor, 0 opposed, 0 abstentions, 0 excused, the motion was approved.

**9. Requests for Future Agenda Items**

Mr. Connelly indicated he would like to have a formal agenda item once a year reviewing 1) asset allocation regarding what has happened or change from result expectations, 2) investment manager selection decisions, and 3) feedback from both staff and consultants regarding the process used and investment decisions that have been made.

**10. Call to the Public**

No members of the public requested to speak.

## 11. Adjournment

The meeting adjourned at 5:47p.m.

Respectfully submitted,

Chasity Byrd  
Investment Committee Secretary

Date

Gary Dokes	Date
Chief Investment Officer	